TD/B/41(2)/7
TD/B/CN.3/11

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Report of the Standing Committee on Economic Cooperation among Developing Countries on its second session

held at the Palais des Nations, Geneva,
from 14 to 18 November 1994

UNITED NATIONS

UNITED
NATIONS

TD

United Nations Conference
on Trade and Development

Distr.
GENERAL

TD/B/41(2)/7
TD/B/CN.3/11
16 December 1994

Original: ENGLISH

Report of the Standing Committee on Economic Cooperation among Developing Countries on its second session

held at the Palais des Nations, Geneva,
from 14 to 18 November 1994

GE.94-54913 (E)

CONTENTS

Chapter		Paragraphs
	Introduction	1 - 9
I.	Strengthening subregional and regional integration and fostering interregional cooperation, as well as promotion and expansion of trade among developing countries Review of major developments in the area of economic cooperation among developing countries, including regular consultations and technical support, assistance and skill development (agenda items 3 and 4)	10 - 34
II.	Organizational matters	35 - 39

Annexes

I. Agreed conclusions of the Standing Committee

II. Provisional agenda for the third session of the Standing Committee

III. Membership and attendance

INTRODUCTION

1. The Standing Committee on Economic Cooperation among Developing Countries held its second session at the Palais des Nations, Geneva, from 14 to 18 November 1994.

2. In the course of its session, the Standing Committee held four plenary meetings (5th-8th plenary meetings).

Opening statements

3. The **Chairman**, referring to recent examples of ECDC such as the Alliance for Sustainable Development in Central America, said that such initiatives contributed to the strengthening of regional cooperation and thus might be emulated by other developing countries and groupings. Regarding the role of the Standing Committee, he stressed that the Committee should be a mechanism for the exchange and transfer of ECDC knowledge and practices, a catalyst for policy dialogue on ECDC, and a "bridge" between developing and developed countries, particularly concerning developed-country support for technical and economic cooperation among developing countries.

4. The **Officer-in-Charge of UNCTAD** said that the revival of interest in ECDC, in both developing and developed countries, had continued unabated against the backdrop of a number of positive trends. An ever-growing number of countries were implementing structural adjustment programmes to create an environment that was more conducive to economic efficiency and private-sector initiative. The increasing importance of the private sector found expression in the growth of developing-country enterprise cooperation arrangements, both within regions and interregionally.

5. At the same time, financial liberalization and other reform efforts were giving rise to a much stronger financial sector in developing countries, which in turn was generating growing interest in cooperation in the development of regional capital markets. Additionally, important initiatives were being pursued with the framework of regional arrangements, such as monetary harmonization, strengthening of multilateral clearing and payments arrangements, trade financing and export credit and guarantee schemes. These developments facilitated cross-border investment, provided the necessary market size for the viability of investments, helped in the mobilization of resources and encouraged linkages between economies.

6. As for regional economic arrangements, expansion, consolidation and intensification were continuing, and the performance of these arrangements was better now than previously owing in part to the adoption of market-oriented policies which gradually led to a certain convergence of macro-economic policies and enhanced possibilities for ECDC.

7. All these initiatives provided greater scope for cooperation in the development of infrastructure and in other specific projects in the areas of energy, industry, agriculture, tourism, and human resource development, as well as in the establishment and operation of a range of common services covering such areas as environmental protection, research, technology and regional security. At the same time, South-South trade continued to expand, with the rate of growth in the last few years being particularly marked.

8. The potential for ECDC was, however, still a long way from being fully realized. Obstacles to South-South trade still existed, for example relatively high tariffs, non-tariff barriers and a range of physical barriers including deficient transport links. Thus, the intra-trade carried out within the framework of regional arrangements remained low compared with global trade. In addition, the formal provisions for trade liberalization of regional integration groupings had in practice not always been implemented. Another area of ECDC which did not seem to have received sufficient attention concerned joint cooperation and dialogue in improving the effectiveness of action by developing countries in the field of international economic negotiations. An example of the value of this approach had been seen in the Uruguay Round of Multilateral Trade Negotiations, where cooperation between developing countries, supported by UNCTAD, had played a great part in enabling these countries to cope with the trade negotiation agenda.

9. With regard to the work programme of the Standing Committee, there was need for sharper focus. Areas of work to which the Standing Committee might wish to give special attention in the forthcoming period might involve: measures for increasing trade among developing countries, as well as trade with developed countries; the fuller integration of the enterprise sector in ECDC processes; more intense dialogue and communication among developing countries; and continued development of the "partnership dialogue" between developed countries, developing countries and their respective institutions. In respect of the latter, the discussion by the Standing Committee of the issues raised in the report of the Intergovernmental Group of Experts on Economic Cooperation among Developing Countries (TD/B/CN.3/6-TD/B/CN.3/GE.1/5) should give impetus and add depth to the dialogue, whose results should constitute a major input into the work of the international conference on ECDC being proposed by the Group of 77.

Chapter I

STRENGTHENING SUBREGIONAL AND REGIONAL INTEGRATION AND FOSTERING INTERREGIONAL COOPERATION, AS WELL AS PROMOTION AND EXPANSION OF TRADE AMONG DEVELOPING COUNTRIES

REVIEW OF MAJOR DEVELOPMENTS IN THE AREA OF ECONOMIC COOPERATION AMONG DEVELOPING COUNTRIES, INCLUDING REGULAR CONSULTATIONS AND TECHNICAL SUPPORT, ASSISTANCE AND SKILL DEVELOPMENT

(Agenda items 3 and 4)

10. For its consideration of agenda items 3 and 4, the Standing Committee had before it the following documentation:

"Strengthening subregional and regional integration and fostering interregional cooperation, as well as promotion and expansion of trade among developing countries" - report by the UNCTAD secretariat (TD/B/CN.3/8);

"Review of major developments in the area of economic cooperation among developing countries, including regular consultations and technical support, assistance and skill development" - report by the UNCTAD secretariat (TD/B/CN.3/9 and Add.1);

"Review of major developments in the area of economic cooperation among developing countries, including regular consultations and technical support, assistance and skill development" - note by the UNCTAD secretariat (TD/B/CN.3/Misc.2); and

"Report of the Intergovernmental Group of Experts on Economic Cooperation among Developing Countries" (TD/B/CN.3/6-TD/B/CN.3/GE.1/5).

11. The **Director of the Division for ECDC and Special Programmes**, introducing the documentation prepared by the UNCTAD secretariat, said that, on item 3, document TD/B/CN.3/8 reviewed recent policy initiatives, dealt with the major problems and obstacles encountered in ECDC, and provided policy recommendations regarding trade policies, monetary and financial cooperation, trade efficiency and facilitation, transport, institutional issues and external support for action by the Committee. On item 4, document TD/B/CN.3/9 reviewed salient developments in ECDC, namely South-South trade policies and flows; monetary and financial cooperation; subregional and regional integration and interregional cooperation; and advisory support and technical assistance provided by the secretariat. With regard to document TD/B/CN.3/6-TD/B/CN.3/GE.1/5, the recommendations of the Intergovernmental Group of Experts on Economic Cooperation among Developing Countries included the promotion of dialogue between ECDC entities and their international partners, the consideration of the regional dimension by regional and international financial institutions, a request for cooperation between UNCTAD and the OECD Development Aid Committee regarding data collection and dissemination on external support to ECDC, and the facilitation of dialogue by UNCTAD.

12. Since the first session of the Standing Committee, the Division for ECDC had finalized 25 other studies and carried out four technical assistance programmes in conformity with its mandate. She urged delegations to determine future priorities and actions in ECDC in the light of the work done by the secretariat. She expressed her concern about the reduction of resources for regional and intergovernmental projects that had resulted in the phasing-out of technical assistance for regional and interregional cooperation and integration.

13. The spokesman for the **European Union** (Germany) expressed the European Union's particular interest in regional cooperation in the ECDC context. While it was well recognized that each regional grouping had its own particularities, the European Union could nevertheless offer valuable examples relating to various aspects of regional integration. Moreover, it had taken various cooperation initiatives with groupings of developing countries. He underscored the synergies liberated by the growing specificities of developing countries and their cooperation with developed countries. He supported developing countries' efforts for the elimination of trade barriers and the creation of larger economic spaces among themselves as a complement to the results of the Uruguay Round. Beside its positive role in avoiding regional conflicts or the isolation of individual countries, regional integration could also create an atmosphere of trust and produce considerable economies of scale, as well as diverting resources from military to development use. He considered that the Lomé Conventions and the European Union's dialogue with Latin America, the Mediterranean Basin and Asia offered a good institutional and financial framework for close interregional cooperation.

14. The representative of **Indonesia** said that, although South-South trade had been increasing consistently over the last seven years, trade and economic relations among developing countries remained the weak link in the network of international economic cooperation. The creation among developing countries of organizations for regional cooperation and of subregional economic groups should constitute a mainstay for South-South cooperation, and the external policy reforms undertaken by many developing countries to promote outward export-oriented and market-based policies would constitute a conducive basis for such regional economic cooperation. Regional cooperation needed to be conceived not only in terms of exploiting complementarities but also as a means of improving the overall efficiency and competitiveness of productive sectors. A stronger focus on the mobilization of both domestic and foreign investment was needed, and the improvement of the investment climate in a regional perspective could strengthen the intra-regional supply of goods and services.

15. As regards interregional trade, the Global System of Trade Preferences among Developing Countries (GSTP) constituted a primary vehicle for promoting South-South trade and was an essential mechanism for strengthening collective self-reliance. In this regard, he expressed his delegation's disagreement with several statements made in the UNCTAD document entitled "Impediments and disincentives to trade among developing countries: a survey" (UNCTAD/ECDC/244) to the effect that the GSTP remained a hostage to the low number of countries participating in it and to the low number of concessions agreed and that an across-the-board scheme was required. In fact, 40 countries were participating in the System, including the main trading developing nations, with six additional countries having applied for

membership, and the Second Round of Negotiations was now under way with a view to carrying forward the exchange of concessions; in addition, while an across-the-board scheme was already under discussion in the Second Round, a divergence of views still existed among the participating countries themselves. His delegation therefore suggested that the relevant paragraphs of the document concerned be revised in order to reflect the true situation.

16. Finally, while his delegation was in full agreement with the Cartagena Commitment to the effect that the implementation and strengthening of ECDC was primarily the responsibility of the developing countries, the international community was invited to provide adequate assistance, technical cooperation and other support for specific economic cooperation programmes.

17. The representative of **China** said that, since the Standing Committee's first session, changes had occurred in the world economic situation, including the conclusion of the Uruguay Round of Multilateral Trade Negotiations, the economic recovery of developed countries and the effects of the end of the Cold war. Against this background, an increasing number of developing countries were giving new emphasis to ECDC, as manifested by an initiative of the Group of 77, supported by China, on the convening of an international Conference on South-South Cooperation under United Nations sponsorship.

18. ECDC was a long-term task, and developing countries must not relent in their efforts to strengthen it. Regional organization was one of the positive forms of cooperation. What was more important was the need for substantive cooperation in specific fields. He thus appreciated UNCTAD's recent work on trade financing facilities which could be of great value to developing countries, which were late starters in this field. China, for example, had in July 1994 formally established the China Import and Export Bank.

19. He regretted that China's trade was not reflected in document TD/B/CN.3/9 on trade among developing countries. China's trade with other developing countries had been growing faster than its foreign trade as a whole. For example, in 1992 the value of China's imports had grown by 26.3 per cent, while its imports from other developing countries and regions had risen by 27.7 per cent.

20. Finally, he expressed appreciation for the technical assistance provided by UNCTAD and called for continued efforts in that direction.

21. The representative of **Kenya** said that ECDC represented one of the best hopes emerging from the Spirit of Cartagena, which had created unprecedented consensus on ECDC. What was important now was to establish priorities and to develop concrete proposals for action based on the elements delineated in the documentation prepared by the UNCTAD secretariat. As far as developing countries were concerned, the Group of 77 should discuss and determine within each regional group its joint positions on, for example, sustainable development. Since the Cartagena Commitment redefined the relationship between North and South as a partnership through dialogue, as evidenced by the work of the Intergovernmental Group of Experts on ECDC, developed countries should not only listen but also participate in the process of ECDC. Nevertheless, what was most important but mostly missing was the demand from developing countries, and he urged developing countries to come up with concrete proposals and ideas.

22. The representative of the **Economic Commission for Africa** (ECA) noted that in his region, the recently created African Economic Community (AEC) would serve as the framework for integration. As a response to the specific needs of the African continent, the AEC model consisted of three major elements, namely the development of intraregional trade, the development of production, and the development of infrastructure. Due to the weakness of production and infrastructure, integration by market liberalization in itself could not automatically lead to increased trade flows. The existing African subregional groupings (ECOWAS, ECCAS, PTA/COMESA, SADC and the initiatives of the French-speaking countries) had already adopted this model. Moreover, the initiatives of the French-speaking countries had created in-depth harmonization of rules. He suggested that efforts towards harmonization and trade liberalization among subregional groupings, supplemented by sectoral and infrastructural development programmes, should serve as platforms for efficient linkages and long-term fusion among them.

23. He informed participants about his Commission's activities in support of regional integration (in close collaboration with UNDP, UNCTAD, FAO and UNIDO), including sectoral studies on agriculture, electricity networks, transport, communication and monetary harmonization. He stressed that the follow-up to these studies depended on a solution to the key problem of lack of financial resources. In this regard, ECA was implementing subregional systems of self-financing tailored to the particularities of each grouping. These systems aimed at reducing the almost exclusive dependence of integration processes on external financing.

24. The representative of **FAO** said that her organization regarded ECDC and TCDC as key elements in the search for collective self-reliance and essential contributions to the structural changes required for a balanced and equitable process of world economic development. ECDC and TCDC were among the priority means of action in FAO's activities, undertaken in collaboration with various regional and subregional organizations, in the fields of regional and subregional development strategies and policies, food security, agricultural trade and commodities, food quality control and food safety, fisheries, and forestry. These activities included, inter alia, studies and technical assistance on trade in agricultural commodities and on the implications of regional trade arrangements and the Uruguay Round; collaboration with OAU in the preparation of a Common African Agricultural Programme; assistance for regional/subregional food security programmes, including exchange of food security information, pest control management programmes, and increase in food production in low-income food-deficit countries; assistance for the harmonization of food quality control and food safety; and a global fish marketing information system.

25. The representative of **Japan** said he agreed with the Officer-in-Charge of UNCTAD on the importance of ECDC against the backdrop of the global political and economic changes now taking place. In the light of the increased significance of strategy for formulating a new international order, the Japanese Government had hosted the International Conference on African Development in Tokyo in 1993, and, as part of the follow-up to the Conference, an Asia-Africa Seminar would be convened in Indonesia in December 1994. At the General Assembly, the Japanese Foreign Minister had said that, in today's world, South-South cooperation, where more advanced developing countries shared their experience and technology with other developing countries, was of

increasing significance, and that Japan intended to suggest concrete plans for the promotion of South-South cooperation around the globe. His delegation believed that it was essential to sort out and review the existing framework, to study what advanced technology each country had and to study the concrete needs for assistance.

26. The representative of the **Islamic Republic of Iran** called for a careful examination of past ECDC experiences. He considered that both general and specialized groupings had to deal with a comprehensive range of activities, and regarding the conditions for successful integration, he stressed the importance of a favourable socio-political environment, a homogeneous approach to world economic issues, progress in achieving structural reforms in member countries, and policy coordination. In addition, external support in the form of capital inflows seemed to be vital. The essence of regional integration was the harmonization of policies and practices, along with concerted actions in global trade and development issues. Economic cooperation groupings required strengthened dynamism as a response to challenges such as the new agendas for multilateral negotiations in the post-WTO era, the ever-increasing sophistication of market structures, and the emerging environmental standards. For ECDC and its external support, these new global parameters entailed the redesign and consolidation of activities.

27. Regarding his country's contribution to more dynamic regional integration, he cited the recent expansion of the Economic Cooperation Organization (founded by the Islamic Republic of Iran, Pakistan and Turkey) to include seven Asian countries in transition, as well as a four-day seminar to be held in Tehran in December 1994 on the consolidation of this grouping under the new framework.

28. The representative of the **United Kingdom** said that the extent of representation of developing countries at the Standing Committee's second session did not reflect the importance accorded by them to ECDC. Referring to document TD/B/CN.3/8, he observed that some of the suggestions contained therein merited consideration. For example, one particularly striking phenomenon was that certain developing countries were members of about six different regional cooperation groupings. Such multiple membership raised many difficulties, so the recommendation on the rationalization of overlapping groupings deserved priority attention. Of equal importance was the need for concrete action by developing countries themselves to strengthen ECDC. Finally, existing financial resources should be put to better use, as new resources for ECDC were not likely to be forthcoming from the donor community.

29. The spokesman for the **Group of 77** (Thailand) said that the rationale for ECDC had been reinforced by the important changes in the world economy. Recovery and sustained development in the South, besides being beneficial to the South, would also be in the broader interest of the world economy. At the same time, ECDC had to respond to and reflect the recent changes and, indeed, developing countries had responded. The developing countries realized that ECDC was a viable strategy, both for development and for preparing their economies to participate in a competitive world economy. They looked to ECDC as a proving ground for gaining experience through learning-by-doing and accruing, at lower cost and under similar objective conditions, all types of scale economies and resource complementarities. That was why the Ministers of the Group of 77 were calling for a United Nations conference on South-South

cooperation to map out, in full partnership with the developed countries, a strategy for ECDC for the 1990s. The Group expected UNCTAD to provide a major contribution to the preparations for this conference.

30. With regard to the outcome of the Committee's session, t Group of 77 believed that the Committee should put forward a programme of action which gave priority to: follow-up action on the ECDC-Uruguay Round relationship; the launching of the dialogue proposed in the report of the Intergovernmental Group of Experts (TD/B/CN.3/6-TD/B/CN.3/GE.1/5, annex I, para. 12), which should go beyond mere gathering of information and exchange of views to a dialogue in which concrete actions could be taken in support of ECDC and TCDC; concrete actions in the domain of trade financing, including the proposed project for assistance in the field of trade finance involving the interregional development banks and drawing on their financial support, along with that of the donors; and concrete recommendations regarding impediments and obstacles facing South-South trade. He urged the Committee to agree upon a set of conclusions embodying specific actions. ECDC was a common venture in the interest of all members of the international community.

31. Finally, UNCTAD's work on ECDC had been hampered by the lack of resources allocated to the programme, but ECDC clearly could not be effective without technical assistance in the field.

Action by the Standing Committee

32. At the Standing Committee's closing plenary, on 18 November 1994, the **Chairman** introduced draft agreed conclusions of the Standing Committee (TD/B/CN.3/L.6).

33. The **Standing Committee** adopted the draft agreed conclusions, with one oral amendment (for the agreed conclusions as adopted, see annex I).

Closing statement

34. The **Rapporteur** said it was clear from the Standing Committee's discussions that, while economic cooperation among developing countries had increased, there was nevertheless considerable scope for further expansion, and the potential of the ECDC concept was far from exhausted. The Committee's agreed conclusions would help in no small measure to ensure that the efforts of the Committee produced tangible results in terms of actual expansion of ECDC and the inter-sessional meetings of the extended bureau should provide a valuable mechanism for following the work programme in a more sustained manner. In the wake of the Uruguay Round, all countries were trying to come to grips with the new situation and to see how best to benefit from new opportunities. Work in this area would therefore be of particular importance, and, of course, in such efforts it would be crucial to intensify not only South-South cooperation, including bilateral discussions, but also the North-South partnership dialogue in order to ensure the effective support of the developed world for ECDC activities.

Chapter II

ORGANIZATIONAL MATTERS

A. Opening of the session

35. The second session of the Standing Committee on Economic Cooperation among Developing Countries was opened on 14 November 1994 by Mr. D. Nanjira (Kenya), Chairman of the Standing Committee at its first session.

B. Election of officers

(Agenda item 1)

36. At its 5th (opening) plenary meeting, on 14 November 1994, the Standing Committee elected its officers as follows:

Chairman:	Mr. M. Dengo	(Costa Rica)
Vice-Chairmen:	Mr. B.J.A. Achiayao	(Ghana)
	Mr. B. Alipur	(Islamic Republic of Iran)
	Mr. J.R. Salazar	(Colombia)
	Mr. I. Kinnas	(Greece)
	Mr. V. Skliarov	(Russian Federation)
Rapporteur:	Mr. Z. Baltacioglu	(Turkey)

C. Adoption of the agenda and organization of work

(Agenda item 2)

37. At its 5th plenary meeting, on 14 November 1994, the Standing Committee adopted its agenda, as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Strengthening subregional and regional integration and fostering interregional cooperation, as well as promotion and expansion of trade among developing countries

4. Review of major developments in the area of economic cooperation among developing countries, including regular consultations and technical support, assistance and skill development

5. Provisional agenda for the third session of the Standing Committee

6. Other business

7. Adoption of the report of the Standing Committee to the Trade and Development Board.

D. Provisional agenda for the third session of the Standing Committee

(Agenda item 5)

38. At its closing plenary, on 18 November 1994, the **Standing Committee** adopted the draft provisional agenda for its third session (TD/B/CN.3/L.5). (For the provisional agenda, see annex II.)

E. Adoption of the report of the Standing Committee to the Trade and Development Board

(Agenda item 7)

39. At its closing plenary, on 18 November 1994, the **Standing Committee** adopted its draft report (TD/B/CN.3/L.4), subject to any amendments to statements that might be received from delegations, and authorized the Rapporteur to complete the text of the report to reflect the proceedings of the closing plenary.

Annex I

STRENGTHENING SUBREGIONAL AND REGIONAL INTEGRATION AND FOSTERING INTERREGIONAL COOPERATION, AS WELL AS PROMOTION AND EXPANSION OF TRADE AMONG DEVELOPING COUNTRIES

REVIEW OF MAJOR DEVELOPMENTS IN THE AREA OF ECONOMIC COOPERATION AMONG DEVELOPING COUNTRIES, INCLUDING REGULAR CONSULTATIONS AND TECHNICAL SUPPORT, ASSISTANCE AND SKILL DEVELOPMENT

Agreed conclusions of the Standing Committee

1. The Standing Committee noted that developing countries have pursued the process of strengthening and expanding their economic cooperation and integration schemes, and have made considerable efforts in this process. At the same time, developed countries and their institutions have also continued to support these initiatives. The present trends in production, trade, investment and technology open an ample and fertile ground for increased ECDC.

2. However, the potential of ECDC as a strategy for promoting economic growth in developing countries is still a long way from being fully realized. The intra-trade of developing countries, both within the framework of the various regional communities and interregionally, remains low compared with their global trade, while in much of the other ECDC areas the achievements are still few and far between. The reasons for this failure to achieve ECDC objectives include, prominently, the fact that the production and export structures of the countries concerned remain largely undiversified, with the result that countries tend to seek protection for more or less the same types of industries. There has also been a lack of adequate transport and communication infrastructures, monetary and financial instruments and business links between member countries. Accordingly, developing countries, despite large disparities among regions, have to adopt strategies that combine trade liberalization with other measures in the areas of production, investment, transport and communications, marketing and distribution, trade information, etc., in order to provide the conditions for intra-trade growth. The proliferation of cooperation and integration groupings with overlapping membership and objectives could be another factor affecting their effectiveness.

3. The Standing Committee has an important role to play in facilitating ECDC processes and in stimulating new ideas and innovations. At its first session in January 1993, the Standing Committee agreed to a wide-ranging work programme designed to strengthen ECDC processes in general and covering the various aspects of trade liberalization, production, money and finance, enterprise cooperation and a range of other functional areas and, importantly, increased dialogue among the developing countries themselves and between them and the wider international community. Considerable progress has been made in fulfilment of this work programme. However, the Standing Committee at its second session decided to give sharper focus to the work in a selected number of areas which hold the promise of having a significant impact on the economies of developing countries within a reasonable time span and, at the same time, of enabling the Committee to report more concrete achievements to the next Conference.

4. In this regard, the Standing Committee will give special attention to measures for increasing the effectiveness of trade liberalization regimes in

regional integration arrangements and for increasing South-South trade, taking into account the elements of trade with the North and having special regard to the role that could be played by the GSTP on the one hand and, on the other hand, existing and emerging market access opportunities in other regions. The Standing Committee also considered ways and means of ensuring fuller integration of the enterprise sector in ECDC processes, involving in particular initiatives designed to help markets to work both within and across national boundaries with greater efficiency and to encourage and facilitate cross-border initiatives by the sector.

5. More intense dialogue and cooperation among developing countries to exchange experiences and provide mutual support and assistance in critical areas, using for example technical cooperation among developing countries (TCDC) mechanisms, was also considered another promising area in the light, especially, of the technical requirements in developing countries for assessing and implementing the Uruguay Round Agreements, adopting measures to take advantage of the new trade opportunities and avoiding negative effects arising from the Round.

6. The "partnership dialogue" between developed and developing countries and their respective institutions launched by the first session of the Standing Committee has broken important new ground in a number of ways. In particular, the dialogue that has been conducted so far has shown that the Standing Committee is one of the important multilateral forums for discussing the role of developed countries and their institutions in the ECDC process and precise ways in which they can support ECDC initiatives. The Standing Committee therefore takes note of the report of the Intergovernmental Group of Experts on Economic Cooperation among Developing Countries, endorses the recommendations of the Group as contained in the appendix to these agreed conclusions and recommends their implementation.

7. In view of the above, the Standing Committee requests the Secretary-General of UNCTAD, within the limits of available resources, to:

- Undertake consultations with the regional development banks with a view to formulating and implementing a programme of technical and financial support of specific ECDC actions for trade financing;

- Explore the possibility of joint actions between the North and South in the areas of investment, production and marketing;

- Identify specific possibilities in the context of intraregional cooperation measures in support of trade expansion, joint production, marketing, investment, technology, transport and communication.

8. The extended Bureau of the Standing Committee will meet between Committee sessions to review developments and exchange experiences, discuss emerging issues and examine ways and means of advancing ECDC/TCDC, such as the mobilization of required financial support. It would also scrutinize the progress made in implementing the programme of work of the Committee and make suggestions on speeding up implementation and effective follow-up.

9. The Standing Committee took note of the proposal for a United Nations conference on South-South cooperation called for by the Group of 77.

Appendix

RECOMMENDATIONS OF THE INTERGOVERNMENTAL GROUP OF EXPERTS ON ECONOMIC COOPERATION AMONG DEVELOPING COUNTRIES, WHICH MET IN GENEVA FROM 27 JUNE TO 1 JULY 1994

The Intergovernmental Group of Experts recommends that:

(a) The Standing Committee support facilitation and promotion of dialogue between ECDC entities themselves and between them and their international partners with the participation of the private sector;

(b) The dialogue could, inter alia, focus on:

(i) Exchange of experience of various regions and programmes;

(ii) Major policy issues affecting donor-recipient relations, including the impact of structural adjustment programmes on regional initiatives and the evaluation of the budget implications, taking into account the reduction of intraregional trade barriers;

(iii) Scope and features of donors' programmes and policies, including the resource constraints they face;

(iv) The medium-term programmes and projects formulated by the ECDC entities, setting a scheduled time frame for action in areas of priority to them;

(v) Identification of areas in which national capacity could be strengthened in so far as ECDC is concerned; in particular, support for training and research in the area of regional integration through seminars, workshops, training and information programmes provided by relevant international bodies;

(c) The Standing Committee call upon regional and international financial institutions to take into account in future the regional dimension in their operation plans, especially through:

(i) Reviewing information about activities and projects decided upon at the regional and subregional levels;

(ii) Facilitating the participation of the regional and subregional groupings as observers in their annual meetings and meetings of the Board of Governors;

(d) The UNCTAD secretariat should request the Development Assistance Committee of the OECD to facilitate the collection, reporting and dissemination of information on ECDC external support;

(e) UNCTAD should cooperate with United Nations regional commissions as well as with other international and regional organizations in giving full support, in particular in:

(i) Providing technical backstopping for this dialogue;

(ii) Providing, on request, assistance to ECDC participants, taking into account the available resources, in formulating specific programmes and projects considered in the course of the dialogue;

In providing this support, UNCTAD should pay particular attention to facilitating interregional dialogue;

(f) The UNCTAD secretariat should undertake comparative analyses of the successes and failures of regional integration and cooperation arrangements, including an analysis of the areas of overlap of two or more regional integration organizations;

(g) The UNCTAD secretariat should explore ways in which the private sector may assist in enhancing regional cooperation arrangements, for example by supporting regional investment projects in key sectors through build-operate-transfer (BOT) type arrangements, investment funds, etc.

Annex II

PROVISIONAL AGENDA FOR THE THIRD SESSION
OF THE STANDING COMMITTEE

1. Election of officers

2. Adoption of the agenda and organization of work

3. Enlarging and deepening monetary, financial and investment cooperation among developing countries and promoting cooperation of the enterprise sectors of developing countries

4. Evaluation of major developments in the area of economic cooperation among developing countries, including implications of the Uruguay Round results on ECDC arrangements and regular consultations, technical support, assistance and skill development

5. Review of the work programme of the Standing Committee, with special emphasis on the preparations for UNCTAD IX

6. Other business

7. Adoption of the report of the Standing Committee to the Trade and Development Board.

Annex III

MEMBERSHIP AND ATTENDANCE 1/

1. The following States members of UNCTAD, members of the Standing Committee, were represented at the session:

Afghanistan
Algeria
Argentina
Austria
Bangladesh
Bolivia
China
Colombia
Costa Rica
Côte d'Ivoire
Cuba
Democratic People's Republic of Korea
Denmark
El Salvador
Ethiopia
France
Germany
Ghana
Greece
Honduras
India
Indonesia
Iran (Islamic Republic of)
Iraq
Jamaica
Japan
Kenya
Lebanon
Libyan Arab Jamahiriya
Madagascar
Malaysia
Mexico
Myanmar
Nepal
Netherlands
Nigeria
Norway
Pakistan
Peru
Philippines
Republic of Korea
Romania
Russian Federation
Saudi Arabia
Spain
Sri Lanka
Sudan
Thailand
Trinidad and Tobago
Tunisia
Turkey
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
Uruguay
Venezuela
Zambia

2. The following other States members of UNCTAD, were represented as observers at the session:

Australia
Burundi
Chile
Dominican Republic
Ecuador
Finland
Hungary
Ireland
Italy
Oman
Paraguay
Portugal
Qatar
South Africa
United Arab Emirates

1/ For the list of participants, see TD/B/CN.3/INF.2.

3. The Economic Commission for Europe, Economic and Social Commission for Asia and the Pacific, the Economic Commission for Africa, and the Economic and Social Commission for Western Asia were represented at the session.

4. The following specialized and related agencies were represented at the session:

Food and Agriculture Organization of the United Nations
International Monetary Fund
United Nations Industrial Development Organization

The General Agreement on Tariffs and Trade was also represented.

5. The following intergovernmental organizations were represented at the session:

European Community
Organization of African Unity

The South African Development Community attended at the special invitation of the secretariat.

6. The following non-governmental organization was represented at the session:

General Category

World Federation of United Nations Associations

كيفية الحصول على منشورات الامم المتحدة

يمكن الحصول على منشورات الامم المتحدة من المكتبات ودور التوزيع في جميع انحاء العالم . استعلم عنها من المكتبة التي تتعامل معها أو اكتب الى : الامم المتحدة ،قسم البيع في نيويورك او في جنيف .

如何购取联合国出版物

联合国出版物在全世界各地的书店和经售处均有发售。请向书店询问或写信到纽约或日内瓦的联合国销售组。

HOW TO OBTAIN UNITED NATIONS PUBLICATIONS

United Nations publications may be obtained from bookstores and distributors throughout the world. Consult your bookstore or write to: United Nations, Sales Section, New York or Geneva.

COMMENT SE PROCURER LES PUBLICATIONS DES NATIONS UNIES

Les publications des Nations Unies sont en vente dans les librairies et les agences dépositaires du monde entier. Informez-vous auprès de votre libraire ou adressez-vous à : Nations Unies, Section des ventes, New York ou Genève.

КАК ПОЛУЧИТЬ ИЗДАНИЯ ОРГАНИЗАЦИИ ОБЪЕДИНЕННЫХ НАЦИЙ

Издания Организации Объединенных Наций можно купить в книжных магазинах и агентствах во всех районах мира. Наводите справки об изданиях в вашем книжном магазине или пишите по адресу: Организация Объединенных Наций, Секция по продаже изданий, Нью-Йорк или Женева.

COMO CONSEGUIR PUBLICACIONES DE LAS NACIONES UNIDAS

Las publicaciones de las Naciones Unidas están en venta en librerías y casas distribuidoras en todas partes del mundo. Consulte a su librero o diríjase a: Naciones Unidas, Sección de Ventas, Nueva York o Ginebra.

Printed at United Nations, Geneva
GE.94-54913–February 1995–3,105

United Nations publication

UNITED NATIONS

TD

United Nations Conference on Trade and Development

Distr.
GENERAL

TD/B/41(2)/8
20 December 1994

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Forty-first session
Second part
Geneva, 20 March 1995
Item 2 of the provisional agenda

TRADE POLICIES, STRUCTURAL ADJUSTMENT AND ECONOMIC REFORM: DEVELOPMENTS RELATING TO STRUCTURAL ADJUSTMENT POLICIES IN DEVELOPED COUNTRIES AND THEIR IMPLICATIONS

Report by the UNCTAD secretariat

CONTENTS

	Paragraphs
Summary and conclusions	1 - 13
Chapter	
Introduction	14 - 16
I. Structural adjustment policies of developed countries . .	17 - 67
A. Overview	17 - 26
B. Structural adjustment policies of developed countries in the industrial sector	27 - 60
1. Assistance for research and development and for innovation	30 - 33
2. Assistance to industries in difficulties	34 - 51
3. Assistance with labour training in support of structural adjustment	52 - 60

GE.94-54941 (E)

CONTENTS (continued)

		Paragraphs
	C. Structural adjustment policies of developed countries in the agricultural sector	61 - 67
II.	Market implications for developing countries and economies in transition	68 - 79
III.	Policies of adjustment "beyond national boundaries" and implications	80 - 96
	A. Structural adjustment through regional integration .	80 - 83
	B. Support for global enterprise relocation strategies	84 - 96
IV.	Need for further policy analysis	97 - 102

Summary and conclusions

1. Structural adjustment pressures are likely to increase in the world economy. Developed countries, in particular, will need to adjust in response to growing competition that will result from the implementation of Uruguay Round commitments, from the increasing liberalization of entire hitherto highly protected production sectors and, in the case of some countries, from growing regional integration.

2. Continuous investment, disinvestment and relocation in line with changes in comparative advantage, as well as technological innovation and human skill development, are at the heart of the structural adjustment process. Enterprises increasingly pursue corporate strategies on a global scale to take best advantage of each country's ability to produce.

3. Besides trying to ensure macro-economic conditions which are favourable to the adjustment process, governments of developed countries have implemented structural adjustment policies which aim to influence the micro-economic process of adjustment, in particular through assistance with investment, innovation, R & D and labour training. Structural adjustment policies are still anchored essentially in a national setting.

4. Governments recognize that such policies need to have a "positive" approach which promotes structural adjustment in line with changes in comparative advantage. They are increasingly emphasizing the importance of support for investment in technological innovation, basic research and human skill development to promote shifts in production patterns into new technology- and skill-intensive industries where they see their comparative advantage. Moreover, support for traditional industries has been provided to a greater extent to assist with moves within these industries into competitive higher-value products.

5. Such orientation of adjustment assistance may encourage developed countries to move out of production in many low- and middle-market segments of traditional industries where many developing countries and economies in transition have competitive supply capabilities.

6. However, assistance policies are not fully committed to the exit from unviable lines of production in traditional sectors. Subsidies in support of such production are still provided, as well as import protection, in response to political and social constraints. But such aid denies new market opportunities to competitive suppliers in lower-cost countries. Governments would need to show greater resistance to pressures to grant wasteful subsidization. Assistance which helps shift output into competitive up-market segments may be linked more rigorously to the termination of unviable capacities.

7. A growing number of developing countries are, for their part, moving their export supply capabilities into more skill- and technology-intensive industries. They will gain new market opportunities through intra-industry specialization. However, liberal market access will be a crucial prerequisite.

8. A number of developed countries are increasingly directing assistance with labour training towards adapting workforce qualifications to the skill requirements of expanding sectors. They also aim to strengthen the adaptiveness of industries through assistance to workers with "life-time learning". Such training policies may help to reduce reliance on sectors with declining competitiveness as a source of employment and thus facilitate the disengagement from these sectors.

9. Adjustment assistance in agriculture has not as yet led to significant adjustments based on comparative advantage. Assistance would in particular need to promote a restructuring in line with shifts in competitive positions that will result from the longer-term process of liberalization initiated by the Uruguay Round.

10. Governments need to examine carefully the compatibility of adjustment assistance with GATT rules, in particular the Uruguay Round Agreements on Subsidies and Countervailing Measures and on Agriculture. Such compatibility helps ensure that the market opportunities of trading partners are not adversely affected.

11. Policies which stimulate "cross-border" adjustments at global levels should play a more important role. Developed countries' policies widely neglect support for the relocation of declining lines of production to those developing countries and economies in transition that have a comparative advantage in these activities. Schemes of developed countries in support of FDI and other forms of industrial cooperation may serve to a much greater extent to facilitate such relocations.

12. A major objective of the formation of large economic spaces (European Union, NAFTA) has been to raise competitiveness through a process of structural adjustment which is induced by economic integration. Such policies need to be outward-oriented. They should not dampen the impact of import competition on a more efficient reallocation of resources within regions.

13. Policy makers in developed countries must pay greater attention to the contribution of structural adjustment policies to positive adjustment in industries in which liberalization in fulfilment of Uruguay Round commitments is likely to lead to increased imports from developing countries and economies in transition. Important cases in point are agriculture, textiles and clothing. Structural adjustment policies, both horizontal and sector-specific measures, which can facilitate further the opening-up of new market opportunities in such industries require more in-depth analysis.

INTRODUCTION

14. At its eighth session, the United Nations Conference on Trade and Development recognized that the translation of a new international partnership for development into operational terms required mutually supportive efforts at the national and international levels. In this context, structural adjustment in developed countries was seen as one avenue, among others, to ensure the enhanced participation in the world economy of developing countries and countries undergoing the process of transition to market economies (para. 63 (1) of the Cartagena Commitment). The Conference stipulated that the Board would address at one part of its regular annual sessions a topic related to trade policies, structural adjustment and economic reforms (para. 66 of the Cartagena Commitment).

15. At the first part of its thirty-ninth session (28 September to 14 October 1992) the Board considered issues relating to national transparency mechanisms in the context of the fight against protectionism. A specific topic on trade policies ("Trade policy reform in developing countries and the international support required") was considered at the second part of the thirty-ninth session (15 to 26 March 1993). At the second part of the fortieth session (18 to 29 April 1994), a topic related to economic reform ("Increased participation in international goods and services by developing countries and economies in transition: some problems and opportunities") was addressed. At the second part of its forty-first session (spring 1995), the Board will turn its attention to structural adjustment by considering developments relating to structural adjustment policies in developed countries, and their implications.

16. This report has been prepared to facilitate the Board's deliberations. The report assesses major features of structural adjustment policies of developed countries against the backdrop of a world economic setting which is characterized by the gradual opening of frontiers to free trade, growing economic integration across national borders, rapid technological changes and equally fast changes in the skill requirements of the workforce.

Chapter I

STRUCTURAL ADJUSTMENT POLICIES OF DEVELOPED COUNTRIES

A. Overview

17. In the years to come, the pressures on economic agents to adjust will increase in many countries. Above all, adjustment pressures are likely to grow as and when the liberalization commitments of the Uruguay Round are implemented and lead to a greater exposure of domestic producers to international competition. Furthermore, policies directed at regional economic integration will induce structural adjustment beyond the realm of national economies.

18. In the agricultural sector, the Uruguay Round has initiated an important longer-term process of liberalization. In a shorter-term perspective, additional trade flows as a result of access commitments and tariff reductions may prove to be significant only for a few agricultural products (e.g. beef, certain dairy products, some vegetables, fruit and fruit preserves) as tariffication has resulted in rather prohibitive tariff levels in many cases.

19. In industry, improvements in market access will be more immediate and lead more rapidly to new adjustment pressures. Besides tariff reductions, liberalization in the area of non-tariff measures, in particular the phase-out of grey area measures by the Uruguay Round Agreement on Safeguards, will add considerably to the exposure of domestic markets to import competition. Tariffs have, for instance, been eliminated in many product lines in the pharmaceutical, steel, farm equipment, furniture and toys sectors. Significant tariff reductions have been made in some major markets in a greater number of product lines in the footwear sector. In textiles and clothing, import competition will build up over the 10-year transition period at the end of which the Multi-Fibre Arrangement with its numerous quantitative import restrictions, will be terminated and the sectors be reintegrated into GATT.

20. The Ad Hoc Working Group on Trading Opportunities in the New International Trading Context will undertake a detailed analysis of new market opportunities arising from the implementation of the Uruguay Round agreements. The findings will allow an assessment of new adjustment pressures at sectoral levels in developed countries.

21. In a market economy, the main initiative and responsibility for structural adjustment lie with entrepreneurs and the members of the workforce. The role of governments, first of all, is to put in place "framework conditions" which are favourable to the process of adjustment. Thus, governments have to: (i) maintain a stable macroeconomic environment; (ii) secure a competitive economic environment and, more specifically, openness to international trade and investment; (iii) create an environment of fiscal and monetary policies which are conducive to capital formation; (iv) avoid over-regulation in financial and labour markets, and promote wage flexibility; (v) provide physical infrastructure; (vi) ensure a high level of educational attainment and professional training; and (vii) maintain an adequate level of social protection.

22. Notwithstanding these measures, markets can fail to fulfil their resource allocative functions satisfactorily. Besides trying to ensure favourable macroeconomic conditions, governments have therefore also implemented structural adjustment policies which aim to influence the process of adjustment at the micro-economic level, in particular by providing assistance to industries and the labour market. Such policies need to have a "positive" approach which promotes structural adjustment in line with shifts in comparative advantage. They must complement market forces, but also ease the position of people who are hurt in the adjustment process.

23. The OECD has articulated certain principles to guide policies of "positive" structural adjustment. Noting that government support will, as a rule, only be justified if the economic or social cost of the necessary adjustments are likely to be unacceptably high in the short run, the OECD holds that assistance should be temporary, transparent (e.g. observable by trade partners), linked to the phasing out of obsolete capacity and free of protectionist measures against imports. 1/

24. Actual structural adjustment policies have deviated from these principles in many cases. As a result, there remains substantial need for action to foster structural adjustment in those sectors which will become increasingly exposed to international competition in the medium term: textiles, clothing, steel, shipbuilding, agriculture, certain services and others. A second task ahead is a thorough re-evaluation of the policy instruments applied: to what extent have they been efficient and met the requirements of a "positive approach"? Possible criteria include the extent to which they promote flexibility, facilitate shifts in production, stimulate innovation, or cushion adverse social effects of opting out of production lines and of plant closures.

25. Positive adjustment policies may considerably enlarge market opportunities for third countries and improve worldwide efficiency of production and development prospects. Most of the remaining sensitive sectors are of particular export interest to developing countries. However, present support policies of developed countries are essentially geared to improving the competitiveness of their domestic production and exports. Creation of new export opportunities for developing countries is not a primary consideration, but rather a side-effect of such policies. None the less, disengagement from unprofitable sectors or shifts into higher-quality products could open up markets for exports from developing countries.

26. While corporate strategies are becoming increasingly global, national structural adjustment policies essentially lack a global dimension. It would appear useful to explore to what extent developed countries could employ the promotion of international enterprise cooperation and the relocation of production (and stages of production) as instruments of a positive structural adjustment policy. Such support could help increase the international competitiveness of their enterprises, facilitate existing trends in enterprise strategies, and widen their scope for small- and medium-scale enterprises. Use of regional integration for structural adjustment purposes is on the increase. However, substantially greater opportunities for solving structural

adjustment problems through enterprise cooperation lie in a number of developing countries and economies in transition. Structural adjustment policies should therefore move from national and regional perspectives to a global one.

B. Structural adjustment policies of developed countries in the industrial sector

27. At the industry level, structural adjustment requires continuous capital formation and innovative efforts which introduce new product and process technologies, boost the production of higher value-added goods and diversify into new growth sectors, while declining lines of production have to be discarded or relocated in lower-cost economies. Investment, disinvestment and relocation in line with changes in comparative advantage, and technological innovation and human skill development are at the heart of a "positive" structural adjustment process. In this context the question arises as to what an extent actual government policies correspond to this concept.

28. Governments of developed countries have put in place a wide range of support schemes, horizontal or sector-specific in their orientation, which assist in particular with investment, R & D and labour market training, besides regional aid programmes and export promotion measures. The total cost of these support programmes has been estimated to average $66 billion per annum over 1986-1989, representing approximately 2.5 per cent of total value added in manufacturing industries in developed countries. 2/ The order of magnitude of government support has not changed dramatically since then. Estimates of the cost incurred by developed countries to protect sensitive industries and agriculture exceed these sums by a multiple.

29. Three types of positive adjustment instruments appear to offer particularly interesting perspectives with regard to external effects and global efficiency gains: (i) assistance to research and development and innovation; (ii) assistance to sensitive industries; and (iii) assistance to labour training.

1. Assistance for research and development and for innovation

30. Government policies attach increasing importance to support for investment in technological innovation, basic research and human skill development. The communication of the European Commission on "Industrial policy in an open and competitive environment - guidelines for a Community approach" stresses that "a positive approach to industrial adjustment" implies recourse to policies which develop technological capacity and human capital as key determinants of industrial competitiveness. 3/ The Fourth Technology Framework Programme of the European Union (1994-1998) has increased the resources in support of innovation investment and R & D to ECU 13.1 billion as compared to ECU 8.6 billion for the Third Framework Programme (1990-1994).

31. In the same vein, the approach of the United States of America is placing greater emphasis on the promotion of civilian research in key technology areas and human resource development. A technology programme of some $12.5 billion sets out a number of initiatives for bolstering the country's competitive strength through the encouragement of investment in various fields of

technology of long-term significance. In Japan, MITI's vision of the country's science and technology policy for the 1990s has placed greater emphasis on basic research. 4/ The relative neglect of such research in the past had become a serious constraint on the further up-grading of industrial production structures.

32. The rationale of the new emphasis on investment in R & D, innovation and human skill development is to enhance the competitiveness of national production bases through the promotion of shifts in production patterns into new technology- and human-skill-intensive industries where developed countries see their comparative advantage. Similarly in traditional industries, assistance with innovation, plant and equipment modernization, and skill development has been provided to a greater extent to move output within these industries into competitive higher value-added products and to raise productivity. To some extent, assistance has also helped to diversify traditional production into other more promising sectors.

33. Where firms use support to move into higher quality products, their withdrawal from lower market segments should open up new market opportunities. However, R & D support can also strengthen productivity and competitiveness of mature industries and may, therefore, raise concern that developing countries might lose the advantage of their low labour cost (see chap. II). With regard to certain high-technology industries, some developing countries which are about to enter world markets in such sectors may face difficulties to match the combined financial capacity of developed countries' enterprises and government support for R & D and innovation.

2. Assistance to industries in difficulties

34. In the European Union, governments have to a substantial extent relied on protective measures to shield industries in difficulties from external competition. These defensive policies have coexisted with positive assistance measures which have facilitated structural adjustment. Such assistance, in particular with capital investment, R & D and innovation activities, is seemingly gaining ground and has, for instance, helped the textiles, clothing, leather and footwear industries to move production into higher-quality, high-fashion and more differentiated goods and raise productivity.

35. Investment aid has helped the shipbuilding industry to move into the production of more technologically advanced ships. Research programmes of the European Coal and Steel Community aim to strengthen the competitiveness of the steel industry through the development of new product technologies and production processes, with particular emphasis on promoting the use of steel vis-à-vis competing products in a number of applications (e.g. transport, engineering, energy, environment). In the electronics sector, government assistance, essentially with R & D activities, has been made available to reduce Europe's lag in semi-conductor component technology.

36. Assistance under regional development programmes has also been provided to strengthen the competitiveness of industries with adjustment problems (e.g. agro-industries, textiles and clothing, footwear). They also assist with the diversification of production into new activities with better growth potential (e.g. electronics, telecommunications technology, information technology,

measurement technology). The experience gained offers a mixed picture of successes and failures. A key difficulty with moving into "sunrise" industries has been a relative lack of receptiveness to new technologies and scarcity of skilled human resources in less developed regions.

37. Many traditional production sectors have continued to benefit from subsidies which enabled firms to maintain uncompetitive lines of production and, hence, inhibited structural adjustment, rather than promoting it. The steel sector and the motor vehicle industry have been prominent cases in this regard. Subsidies have sometimes even been granted to establish new capacities in sectors which already suffered from overcapacity. Regional aid has, to some extent, also served to keep uncompetitive production in operation. Grey area measures such as the use of anti-dumping and countervailing measures with a protectionist intent have also helped to maintain uncompetitive activities.

38. Such policies have largely been implemented in response to political and social pressures. Vested interests have lobbied for the subsidization of uncompetitive industries, and an unfavourable economic environment, characterized in particular by high and persistent unemployment, has heightened the social hardship of plant closures. Thus, governments are not as yet fully committed to the disengagement from unviable production capacities in traditional industries.

39. Little assistance has been made available to help enterprises to disengage from uncompetitive sectors. Such aid has mainly been provided to cushion the social cost of plant closures, in particular through support for early retirement schemes. Aid of this kind has been confined to a few sectors, especially steel and shipbuilding, which were important at the regional level and, therefore, posed particular political and social problems.

40. The European Commission is striving to keep aid by member States under tight surveillance. The Commission monitors the compatibility of State aid with the competition rules of the Treaty on European Union. Sector-specific codes on State aid have been established for the shipbuilding, steel, synthetic fibres, motor vehicles and textiles and clothing industries. The Commission's basic policy orientation is to restrict aid by member States for industries in difficulties to cases where government-assisted restructuring is likely to re-establish the longer-term viability of the aid recipient. Assistance with investment in modernization and innovation should serve to shift production "up-market" and improve productivity. Moreover, the authorization of investment aid has increasingly been linked to the implementation of capacity reductions, in particular in textiles, clothing, synthetic fibres, steel and shipbuilding. However, in the case of investment aid under regional programmes the Commission has generally shown a more lenient attitude.

41. Japan began in the late 1970s to manage structural adjustment within a comprehensive legislative framework which applied indiscriminately to all industries that came under adjustment pressures. 5/ All together, some 25 industries received assistance within this framework: 3 mineral

processing industries (electric furnace steel, aluminium, and ferro-silicon), 5 synthetic fibre industries, 5 petrochemical industries, 5 chemical fertilizer industries, 2 textile industries (cotton and wool), and the linerboard, shipbuilding, paper production, cement and sugar refining sectors.

42. A major objective of assistance was the reduction of underutilized, high-cost capacities in accordance with industry-specific Structural Improvement Plans. Exemptions from the Anti-Monopoly Act allowed firms to form "capacity-reduction" cartels, "business tie-ups" and mergers. Furthermore, modest financial assistance backed up capacity reductions.

43. In 1983, government policy shifted, to some extent, from "adjustment out" towards "modernization". In addition to help with the downsizing of capacities, assistance to industries under adjustment pressures was provided for modernization of plant and equipment, product improvements and developments, and shifts into new lines of production. A major government tool has been industrial credit programmes administered by government development banks.

44. Actual capacities scrapped have on average amounted to 98 per cent of the targets set in the Structural Improvement Plans. 6/ Still, it is difficult to determine the efficiency of government assistance in bringing about these capacity reductions. Much depends on the degree to which the achieved reductions deviate from an outcome which would have resulted from the operation of market forces. Some analysts have pointed out that the conservatism displayed in setting capacity-reduction targets has prevented more important reductions that would have happened under normal market forces. 7/

45. In 1987 facilities for forming capacity-reduction cartels were terminated, but fiscal and financial support measures were retained to assist industries under adjustment pressures with restructuring efforts. The number of "depressed" industries receiving adjustment assistance was reduced considerably. MITI's latest "vision" of the process of industrial restructuring, promulgated in 1994, confirmed the shift towards a greater determination of capacity reductions in declining industries through the influence of market forces. 8/ Moreover, since the mid-1980s, strategies of industrial relocation in lower-cost countries have played an important role in the adjustment process (see chap. IV).

46. The United States has generally relied on trade-oriented and primarily protective measures, such as tariffs, quotas, or voluntary export restraints to ease adjustment pressures on industries in difficulties. Anti-dumping and countervailing measures have also been applied upon the initiative of industries under import pressure. Moreover, military procurement and research have been used as tools to support civil industries. Financial assistance, however, has been relatively sporadic at the Federal level.

47. A greater number of typically smaller industries with adjustment problems have obtained temporary import protection by petitioning the International Trade Commission (ITC) of the United States. Such temporary protection has been granted on the basis of section 201 of the Trade Act of 1974 (which followed article 19 of GATT) with a view to "preventing serious injury or

threat thereof to the industry ... and facilitating the orderly adjustment to new competitive conditions". Since 1988, an industry requesting relief has been encouraged to submit a plan with concrete steps to adjust to foreign competition. Such a plan is an important factor in decisions on whether or not relief will be granted.

48. However, the ITC's safeguard route has not, as a rule, been used by large declining industries. Such industries have rather exerted political pressure to obtain protection which typically lasted much longer than the four- or five-year customary period of the ITC's escape clause relief. The main industries which succeeded at this level were textiles and clothing, steel, automobiles and, in the agricultural sector, meat and sugar.

49. Some analysts have pointed out that many industries which had been given temporary protection by the ITC had undergone considerable adjustment. 9/ In many cases firms reduced or eliminated productive capacities during the period of protection and managed to remain competitive. While some industries returned to the ITC in efforts to secure additional protection, the ITC generally found that adjustment had occurred, so that the remaining firms required no further protection to escape injury.

50. This has been taken as an indication that trade relief via the ITC's safeguard route has facilitated adjustment relatively successfully. The key to adjustment in these cases has been seen in the fact that protection was credibly regarded as temporary so that firms had no choice but to yield to market pressures. In contrast, in industries which had received protection of a more permanent nature through political pressure, there had been little evidence of strengthened competitiveness, although employment had decreased. 10/

51. Causality between temporary protection and positive adjustment, however, is hard to establish. Capacity reductions would most likely have resulted to an even greater extent without protection. Moreover, protection has narrowed market opportunities of more competitive foreign suppliers, in particular from developing countries.

3. Assistance with labour training in support of structural adjustment

52. In most developed countries, the skills profile of labour required in expanding industries does not, to a large extent, coincide with the qualifications of workers released by contracting industries. Government assistance with labour training aims to help mitigate this "structural mismatch" in labour markets. In practice, however, such assistance has often not been very effective in facilitating employment transition and has encountered various difficulties.

53. First, retraining has proved to be particularly difficult in the case of workers made redundant in import-competing mature industries where many developing countries and economies in transition have competitive export supply capabilities, due to the high proportion of older workers and those with relatively low skills and educational levels.

54. Secondly, training activities have in many cases inadequately responded to labour market needs. Emphasis has, in large part, been placed on basic training of the unemployed, rather than on training for higher-level skills. Thirdly, the financial resources available for assistance with labour training are relatively limited. In nearly all developed countries, government resources spent on training schemes amount to less than half a per cent of GDP (while expenditure on unemployment benefits ranges up to 5 per cent of GDP). Finally, in less developed regions where training is most needed, there is seemingly least provision for training facilities.

55. The contribution of government-supported training programmes to structural adjustment would be strengthened if they were, to a greater extent, designed to respond to the manpower demands of expanding industries, impart the knowledge and skills required for the use of new technologies and adapt workers to more complex organizational structures of production. Moreover, the development of training programmes in close consultation with the business sector would help to ensure that they meet enterprise needs and support on-the-job training.

56. Thus, in the European Union, the "adaptation (of workers) to industrial changes and to changes in production systems, in particular through vocational training and retraining" was added as a further major objective of financial assistance from the Community Structural Funds, in particular the European Social Fund (see art. 123 of the Treaty on European Union). In line with this objective, the European Union assists training programmes for workers and managers who are in employment but are likely to be affected by industrial change. Attention is also given to improving the adaptative strength of industries through regular access of workers and employees to training throughout their working lives. The intention is to safeguard employment and develop new employment possibilities for persons at risk of unemployment through timely retraining in line with structural change, rather than having to finance efforts to reintegrate workers made redundant into the labour force. The implementation of this strategy requires that enterprises analyse and anticipate correctly and in good time changes in the skill and qualification needs of their workforce. Such training-related assistance is likely to become more sector-specific and assign in future growing importance to the link between training and jobs (e.g. courses which combine a theoretical stage with practical experience in the workplace).

57. Increased financial resources would allow a wider participation in training programmes. At present, participation amounts to less than 3 per cent of the labour force in most developed economies. Few of them have recorded a participation of more than 5 per cent. These participation rates are low in light of the increasing need for frequent retraining of workers. On the other hand, it should not be overlooked that bleak employment prospects may constitute a disincentive for unemployed labour to seek retraining.

58. In the European Union, ECU 2 billion have been allocated to the new training-related objective of Structural Fund finance during 1994-1999 for retraining workers in sectors undergoing particularly severe structural changes (including textiles and automobiles). Assuming that retraining costs

about ECU 10,000 per worker, and that funds of the European Commission bear half of this amount, 80,000 workers could be retrained under this facility. 11/

59. In the United States the number of participants in training schemes under the Job Partnership Training Act (JTPA) has rarely exceeded 100,000 in any one year in the 1980s, while on average some 4 to 5 million workers annually involuntarily lost their jobs. Under the Trade Adjustment and Assistance Programme (TAA) which provides training benefits to displaced workers in cases where imports contributed to their job losses, the average number of workers who received training amounted to about 12,000 participants per year in 1980-1990. 12/ Likewise, State programmes have covered only a tiny proportion of the workforce that required remedial training and skill upgrading.

60. Similarly, the take-up by potential beneficiaries of assistance under government-supported training schemes has been very limited in Japan, even in industries that have faced severe difficulties such as textiles, steel, and shipbuilding. However, in Japan private efforts of employers, the workers made redundant and trade unions have been most successful in identifying alternative employment opportunities and raising skill levels. Large firms have generally endeavoured to ensure long-term job security for their core labour force through a life-time employment system. Employment adjustment has been facilitated by a purely private practice of placing discharged employees in jobs with other enterprises in the same business group. Moreover, such redeployment was made easier by an increasing diversification of production in large firm conglomerates. Employees have, on their part, shown a high degree of intersectoral and geographical mobility. Low unemployment rates in Japan reflect the relative success of employment strategies of the private sector in reallocating workers to new competitive industries.

C. Structural adjustment policies of developed countries in the agricultural sector

61. Adjustment assistance has not as yet led to significant structural adjustment in agriculture as is strikingly reflected in broad-based surplus production in many developed countries. Over the past decades, the policy emphasis in agriculture has been on protectionist support policies, rather than on assistance for adjustment in agricultural structures. The financial resources made available by Governments for the latter purpose have been small in comparison to the enormous public expenditures on market and price support and export subsidies.

62. Schemes for temporary land set-aside have to some extent contained surplus production, but have contributed little to a lasting retirement of land from agriculture. Government assistance with farm modernization (e.g. new investment, introduction of new agricultural technologies) has in many cases improved productivity, but not necessarily in sectors with comparative advantage, and, thus, simply added to surplus production. Government assistance, including R & D support, for diversification into other crops having a better growth potential (e.g. certain fruit and vegetables) as

well as into forestry and aquaculture have had seemingly some effect, though on a limited scale. Some assistance has also been provided to facilitate moves out of agriculture into small-scale industrial and service activities.

63. Assistance with human resource adjustment in agriculture has included early retirement schemes. However, payments to outgoers have frequently been too small to constitute a real incentive. Furthermore, many Governments have provided assistance with the training of farmers to help improve managerial capabilities, raise technical skill levels and acquaint farmers with new orientations of agricultural production, technology and marketing. Still, evidence suggests that assistance with agricultural training has in the past paid insufficient attention to the conduct of farming operations in a market-determined environment.

64. The results of the Uruguay GATT Round of Multilateral Trade Negotiations have established a framework for the long-term reform of agricultural trade and domestic policies. The main elements of the Agreement on Agriculture are phased reductions in border protection, domestic support and export subsidies. Non-tariff measures have to be converted into tariff equivalents. On the other hand, domestic support exempt from the reduction commitments includes structural adjustment assistance, besides income support decoupled from production, and payments under environmental and regional assistance programmes.

65. Adjustment pressures in agriculture can be expected to grow in a longer-term perspective. However, over the medium term the impact of liberalization is unlikely to lead to structural adjustments on a significant scale. High tariffs as a result of tariffication will mitigate adjustment pressures in many production sectors. Moreover, the reduction in aggregate domestic support to farmers by 20 per cent still leaves considerable support in place, and besides is not product specific. The payment of direct income support will further reduce adjustment pressures. In addition, the application of new safeguard provisions would dampen import expansion and market exposure.

66. Adjustment assistance, therefore, has an important role to play in the advancement of more competitive agricultural structures in developed countries. It would have to be based rigorously on comparative advantage. In particular, it should promote a restructuring in line with shifts in competitive positions and facilitate effective implementation of the longer-term process of liberalization initiated by the Uruguay Round.

67. Instead of continuing the current somewhat sketchy approach towards adjustment assistance with seemingly little impact, policy-makers in developed countries may examine options for more comprehensive strategies of adjustment assistance if they want to help agricultural sectors effectively to adapt to a growing exposure to market forces and exit from surplus production. Such strategies may, in particular, aim to strengthen measures which facilitate the *disengagement* from uncompetitive lines of production, the diversification into agricultural output with better growth potential as well as the exit from agriculture and moves into new activities (e.g. forestry, farm tourism, craft activities, small-scale services).

Chapter II

MARKET IMPLICATIONS FOR DEVELOPING COUNTRIES AND ECONOMIES IN TRANSITION

68. Structural adjustment policies of many developed countries are not as yet rigorously geared to a "positive" approach which supports and facilitates structural adjustment in line with changes in comparative advantage and widens markets for exports from developing countries and economies in transition. Severe adjustment problems due to declining or lost competitiveness and overcapacity persist in major traditional sectors, including textiles and clothing, footwear, iron and steel, and shipbuilding. In agriculture, little progress has been made in developed countries towards meaningful structural adjustment.

69. The new emphasis on adjustment assistance with investment in innovation, research and human skill formation which aims to promote shifts in production patterns into new skill- and technology-intensive industries may prove to be conducive to the closure of industries in low- and middle-market segments where many developing countries and economies in transition have competitive supply capabilities.

70. Moreover, assistance to traditional industries with moves within these industries into high-value products may entail the same beneficial effect. Such assistance could be linked more rigorously to capacity reductions in unviable lines of production. In cases where adjustment assistance to traditional industries has led to productivity improvements in market segments which compete with imports from lower-cost countries, competition has increased for these countries. On the other hand, productivity improvements have often been accompanied by shifts into high-value product ranges.

71. In this context, developing countries have expressed concern that assistance with the development of process innovations which improve productivity through the substitution of capital for labour might entail a loss of their comparative advantage in labour-intensive industries. Evidence suggests that process innovations have not resulted in "reversals" of comparative advantage. Rather, cost advantages due to process innovations have tended to be short-lived.

72. Some traditional industries (e.g. clothing, footwear) do not lend themselves easily to a high degree of automation and have remained relatively labour-intensive. In textiles, technological progress in spinning and weaving operations has improved productivity and increased capital intensity, but the new technologies have spread rapidly to many developing countries. Although their labour cost advantage narrowed, they were able to maintain their competitive edge in standardized mass products, as increasing import penetration in developed-country markets indicates.

73. By contrast, the application of defensive subsidies which simply served to maintain uncompetitive lines of production in traditional industries have denied new market opportunities to competitive suppliers from developing countries and economies in transition, as did the institution of border protection and the use of anti-dumping, countervailing and grey area measures as protectionist devices against import competition.

74. Governments recognize that reductions of uncompetitive production capacities need to be determined to a greater extent by market forces. The Treaty on European Union, for instance, stresses the need to speed up structural change "within open and competitive markets" (art. 130). However, political and social constraints, in particular high levels of unemployment render a rapid exposure to the full impact of import competition difficult.

75. Unless governments show greater resistance to pressures from interest groups for subsidization, structural adjustment will be further retarded and its costs raised even more. Assistance with the social cost of plant closures may be considered to a greater extent in cases where industries are regionally concentrated so that the risk of social disruptions is particularly high.

76. A growing number of developing countries are, for their part, moving their export supply capabilities into industries which produce skill- and technology-intensive goods. The experience of developed countries shows that there is a large potential for intra-industry specialization in trade and production of these goods, and new market opportunities can be expected to emerge for developing countries through intra-industry specialization based in particular on product differentiation and the relative importance of market proximity. 13/ However, liberal market access in developed countries is a crucial prerequisite for such specialization.

77. A careful examination by governments of the compatibility of support measures with GATT rules and, more specifically, with the Uruguay Round Agreement on Subsidies and Countervailing Measures will help ensure that market opportunities of trading partners are not adversely affected. Sector-specific measures are actionable under the Agreement if they cause "adverse effects" (e.g. injury, serious prejudice) to the interests of other countries. Horizontal measures fall outside the purview of the Agreement and can be applied freely under GATT rules. Assistance with R & D, both horizontal and sector-specific, is permitted within broadly defined limitations.

78. In agriculture, structural adjustment policies are unlikely to make a significant contribution to opening up new market opportunities for developing countries and economies in transition, unless such policies are strengthened considerably. Moreover, the impact of adjustment assistance on agriculture will be dampened substantially until adjustment pressures on farmers increase as a result of liberalization policies which eliminate the current high levels of support and protection. However, the effects of the liberalization process set in motion by the Uruguay Round will only be felt in a medium- to longer-term perspective.

79. While adjustment assistance in agriculture needs to be strengthened, such assistance has to be in conformity with the relevant provisions of the Uruguay Round Agreement on Agriculture. According to annex 2 of the Agreement, investment aid to assist in financial or physical restructuring of farming operations must respond to "objectively demonstrated structural disadvantages", although the Agreement gives governments a relatively free

hand in the interpretation of what constitutes a structural disadvantage. Moreover, investment aid may require farmers not to produce a particular product. This provision can prove to be an effective safeguard to ensure that investment aid is not provided in support of output in respect of which producers have no longer a cost advantage and for which there may be considerable surplus production. Assistance to R & D which benefits the agricultural sector comes within the purview of the Agreement on Subsidies and Countervailing Measures.

Chapter III

POLICIES OF ADJUSTMENT "BEYOND NATIONAL BOUNDARIES" AND IMPLICATIONS

A. Structural adjustment through regional integration

80. A number of developed countries view regional integration as a tool to promote structural adjustment in their economies. Economic integration is intended to increase international competitiveness through a more efficient allocation of resources on a wider regional scale, lower production and transaction costs, and induce greater investments and more efficient corporate structures.

81. The European Union considers the single market as a major avenue to improve international competitiveness of its high-tech industries and to reduce the technological gap resulting from a segmented European market vis-à-vis major world market competitors. The European Union has complemented traditional methods of trade liberalization and integration with a number of specific policy actions including joint research and development programmes to advance towards this goal. However, there is not as yet evidence that the relative competitive position of European skill- and technology-intensive industries has effectively improved to the extent expected.

82. Likewise, NAFTA is frequently considered as a means to promote the structural adjustment of the Mexican economy and safeguard economic reforms already achieved. Higher investments and technology transfers should bring about such effects. In turn, NAFTA provides industries of the developed member States with a close-by, low-cost production platform and, hence, with further possibilities to improve their international competitiveness. Closer integration between the European Union and Eastern European countries and recent proposals to enter into free-trade area agreements with Mediterranean countries may also be expected to enlarge the options for the structural adjustment of European industries.

83. Nevertheless, regional economic integration groupings often limit the influence of external pressures on the process of adjustment in certain production sectors by keeping border protection high or maintaining stringent rules of origin. This hampers the development of linkages with more competitive external suppliers and prevents the best possible use being made of global opportunities for a rational allocation of resources.

B. Support for global enterprise relocation strategies

84. In many instances, enterprises in developed countries have relocated production, which had become uncompetitive, to new sites in developing countries where it would enjoy a comparative advantage. Relocation in economies in transition has so far taken place on a much smaller scale, but is expected to grow.

85. Vehicles of relocation have been foreign direct investment (FDI), including joint ventures, and other forms of production cooperation such as subcontracting or licensing arrangements. In part, relocation has taken the form of the transfer of labour-intensive stages of production. Such "outward

processing" has, to a large extent, taken advantage of export processing zones, in-bond industries and special customs and import licensing facilities in developing countries.

86. Relocations to developing countries are, to some extent, embedded in regional or global production and distribution networks of transnational corporations (TNCs). Such networks allow the use of production factors, materials and technology inputs from a wide variety of sources, enable firms to reduce costs and ensure a simultaneous presence in major markets with locally adapted products. TNCs are also revising their investment strategies to incorporate possible locations in economies in transition. Moreover, medium-sized enterprises increasingly extend their operations to regional or global levels.

87. Major beneficiaries among the developing countries of production networks that stretch beyond national borders have been a number of fast-growing developing economies in the Asian region. Moreover, some of these developing countries are, for their part, increasingly pursuing strategies of relocation to lower-cost economies, mainly within the region. Among the economies in transition, a few countries in Central Europe, which have made progress with economic reforms, concluded association agreements with the European Union and are geographically close to its market, are prime candidates for growing inter-linkages with production structures of Western Europe.

88. Many developed countries have implemented programmes which provide support for foreign direct investment (FDI) by their enterprises. 14/ Some schemes are specifically designed to favour investment in developing countries; others are applicable on a general basis. Almost half of the OECD's member countries have public development finance agencies which serve as vehicles for channelling FDI to developing economies. The policies of the Overseas Private Investment Corporation (OPIC) of the United States accord preference to FDI in low-income developing countries. Schemes dovetailed to supporting FDI in economies in transition are still largely missing in developed countries.

89. Governments have also facilitated the relocation of labour-intensive stages of production in cases where the assembled products are re-exported to the input-supplying country. Under "off-shore assembly" and "outward-processing trade" provisions, many governments levy no duties on imports to the extent that the imported products incorporate inputs (e.g. fabrics, components) provided by suppliers in the importing developed country. Furthermore, preferential market access under GSP schemes may have provided some incentive for the relocation of traditional production sectors to beneficiary countries with comparative advantage. Still, quota restrictions and rules of origin have mitigated considerably adjustment pressures due to import competition from GSP products.

90. The objectives of government support for FDI in developing countries are general in their policy orientation. Thus, governments require that their support has a favourable impact on the economic development of the developing country (e.g. employment creation, raising human skills, technology transfer), but brings also economic advantages to the developed country (e.g. securing employment, export expansion). On the other hand, the investment's potential

in generating export opportunities for developing countries is rarely a consideration of support programmes. Rather, such potential may be regarded to be inconsistent with the developed country's balance of payments and employment objectives. Data on FDI flows which benefited from government support, therefore, grossly overstate the contribution of FDI support programmes to structural adjustment in developed countries.

91. Japan may be considered an exception as the country has, in large part, linked its support for FDI to objectives of structural adjustment. Much more so than other countries, Japan has tackled the challenge of declining industries consistently through industrial shedding in the form of overseas transplantation in developing economies. Japanese FDI in developing countries, which is heavily concentrated in the Asian region, has clearly served as a "house-cleaning-and-renovating vehicle" 15/ and facilitated the industrial up-grading of the domestic economy in line with shifts in competitive positions in international trade.

92. The country's industry entered a new phase of relocation in the Asian region in the mid-1980s when the sharp revaluation of the yen impelled Japanese enterprises to move offshore on a much larger scale than in the past. Japanese investment in developing Asia increased more than sixfold between 1985 and 1990. According to some estimates, about 10 per cent of Japanese manufacturing were relocated during this period, creating over 700,000 new jobs in Asia. 16/ Investments have taken place both in light industries (e.g. consumer electronics, TV sets, household appliances, textiles and clothing) and in other sectors (e.g. general and electrical machinery, transport equipment, precision equipment), and were in large part export-oriented, with some proportion of re-exports to Japan. Investments of this kind have slowed down since the early 1990s, indicating that this phase of restructuring is approaching its limits.

93. The strategy of relocating declining lines of production in developing Asia has been implemented in close consultation with the Government and has benefited from financial support. 17/ The approach has been broad-based, rigorously weeding out those industrial activities in which Japan could no longer exploit competitive advantages at home. The relocation strategy has not only helped the restructuring of the Japanese economy, but has at the same time contributed to the development of the host economies. Similar broad-based strategies are still missing in other major developed countries. Some advanced developing countries in the Asian region are following Japan's approach - a phenomenon often referred to as the "flying wild geese pattern".

94. Investment support schemes of developed countries have apparently contributed little to reducing the marked concentration of FDI in a few developing countries and integrating a greater number of them at all stages of economic development into adjustment strategies of developed economies. In 1985-1990, some 10 developing countries, of which 6 in Asia, accounted for three quarters of all FDI in developing economies. Moreover, eligibility requirements (such as adequate political stability of host economies), which provide for discretion in the application of investment support schemes have often resulted in the exclusion of low-income and least developed countries as

well as highly indebted economies. In the same vein, relocation through "outward processing" has in certain sectors, mainly textiles and clothing, been constrained by import quotas.

95. A dynamic process of structural adjustment in production and trade "beyond national boundaries" on a truly global scale is crucially important to integrate all developing countries and economies in transition into an international division of labour which generates gains for all trading partners. Schemes of developed countries in support of FDI could serve to a much greater extent to facilitate the relocation of those of their production activities which have irrevocably lost competitiveness.

96. Further analysis would be required to develop a more comprehensive policy framework, which mobilizes both enterprises and adjustment assistance for industrial relocations of uncompetitive lines of production. A closer examination of the Japanese experience could prove to be helpful.

Chapter IV

NEED FOR FURTHER POLICY ANALYSIS

97. The UNCTAD Ad Hoc Working Group on Trading Opportunities in the New International Trading Context will, inter alia, examine to what extent Uruguay Round commitments to liberalize trade will create new market opportunities for developing countries and economies in transition in the developed countries.

98. Structural adjustment policies of the developed countries can assist industries in accommodating new pressures to adjust. Policy makers in these countries may, therefore, pay greater attention to the contribution of structural adjustment policies to positive adjustment in industries in which liberalization in fulfilment of Uruguay Round commitments is likely to lead to stronger competitive pressures due to increased imports from developing countries and economies in transition. Important cases in point are agriculture, textiles and clothing, which have become subject to a gradual process of liberalization.

99. For these and other major sectors which will be faced with increased import competition, policy makers may: (i) identify enterprise strategies which have adjusted production to changes in competitive positions and, thereby, helped opening up new market opportunities for lower-cost foreign suppliers; (ii) examine whether and to what extent structural adjustment policies have facilitated (or induced) these enterprise strategies; and (iii) identify how structural adjustment policies can be strengthened so as to provide more effective support to such strategies.

100. The analysis of the effectiveness of structural adjustment policies in particular sectors can be complex, especially in cases where industries and enterprises have benefited from several adjustment assistance measures in support of a mix of adjustment strategies. Industries have often combined several strategies to meet increased pressures of competition (e.g. plant closures, productivity improvements, moves into more skill- and technology-intensive lines of output, diversification into other sectors, relocation in developing countries).

101. Particular attention may be given to an evaluation of the effectiveness of incentives and support measures for the relocation of uncompetitive lines of protection to lower-cost countries with comparative advantage, in order to ensure a global perspective of the policy approach.

102. In agriculture, textiles and clothing, which are being liberalized progressively over longer transition periods, structural adjustment policies may to a greater extent aim to stimulate adjustments ahead of the build up of new import competition. In agriculture, structural adjustment policies would very likely need considerable redesign and strengthening.

Notes

1/ See Policies for Adjustment: Some General Considerations, Council Communiqué of 15 June 1978 [C(78)96 (Final) Annex II].

2/ See OECD, Industrial Support Policies in OECD Countries, 1986-1989, Paris, 1992 (OCDE/GD(92)126), table 1.

3/ See "Industrial policy in an open and competitive environment - guidelines for a Community approach", COM(90) 556 in Bulletin of the European Communities, Supplement 3/91.

4/ See MITI, Trends and Future Tasks in Japanese Industrial Technology, White Paper, Tokyo, 1988, quoted in C. Watanabe and Y. Honda, "Japanese industrial science and technology policy in the 1990s", in Japan and the World Economy, Vol. 4, No. 1 (October 1992).

5/ See "Law on Temporary Measures for Stabilization of Specified Depressed Industries", enacted in 1978. In 1983, this law was amended, extended for another five years and renamed "Law on Temporary Measures for the Structural Adjustment of Specified Industries".

6/ See "The role of industrial policy in the post World War II economic development in Japan", country presentation submitted by Japan, UNCTAD TD/B/WG.4/Misc.17.

7/ See S. Sekiguchi and T. Horiuchi, "Myth and reality of Japan's industrial policies", The World Economy, Vol. 5, No. 4 (December 1985); and the same authors, "Trade and adjustment assistance", in: R. Komiya, Okuno, and K. Suzumura, Industrial Policy of Japan (Tokyo, San Diego, London: Acadamic Press, 1987).

8/ MITI, The Sub-Committee for Long-Range Issues of the Industrial Structure Council Interim Recommendations, Tokyo, February 1994.

9/ See R.Z. Lawrence, "A depressed view of policies for depressed industries". In: R.M. Stern (ed.), Trade and Investment Relations Among the United States, Canada, and Japan (Chicago: The University of Chicago Press, 1989).

10/ See R.Z. Lawrence, "A depressed view of policies for depressed industries", op. cit.

11/ See Bulletin of the European Union, No.1/2, 1994 and COM(94)49; furthermore P. Buigues and A. Sapir, "Community industrial policies". In: P. Nicolaides (ed.), Industrial Policy in the European Community: A Necessary response to Economic Integration? (Dordrecht, Boston, London: Martinus Nijhoff Publishers, 1993).

12/ See "Market opportunities (environmental measures, structural adjustment policies, RPBs)", report by the UNCTAD secretariat (TD/B/WG.4/6).

13/ See W. Gerstenberger, "Strukturwandel in den führenden Industrieländern: Setzen sie alle auf die gleichen Pferde?", ifo-Schnelldienst, 5-6/89.

14/ Incentives provided may be broadly grouped into five categories: (a) Investment information services and investment promotion activities, in particular the financing of pre-investment surveys and feasibility studies; (b) Investment guarantee schemes covering non-commercial risks (e.g. war, expropriation and transfer risks); (c) Fiscal incentives; (d) Financial aid (e.g. preferential loans to firms wishing to invest in developing countries); and (e) Establishment of government-sponsored investment corporations providing equity and loan capital for joint ventures. Export credit and export credit insurance programmes which facilitate equipment exports have in many cases also been decisive factors in the financing of a private foreign investment.

15/ T. Ozawa, "Japan in a new phase of multinationalism and industrial upgrading: functional integration of trade, growth and FDI", in Journal of World Trade, Vol. 25, No. 1 (February 1991).

16/ See K. Furuya, "High-level manpower and Japan's foreign aid", paper prepared for Conference on International Manpower Flows and Foreign Investment in Asia, Tokyo, 9-12 September 1991, quoted in Pang Eng Fong, Regionalization in labour flows in Pacific Asia, OECD Development Centre (Paris, 1993).

17/ Besides the provision of credits by the Export-Import Bank of Japan, credits have been extended to enterprises moving offshore by the Overseas Economic Cooperation Fund (OECF) and the Japan International Cooperation Agency (JICA). Both institutions aim to promote economic development in developing countries.